THE
Dan Smoot Report

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WHY THE HIGH COST OF LIVING?

In its efforts to combat inflation (which is sometimes called "shrinking dollar-value" but probably should be called "rising prices"), the Nixon administration is using essentially the same method that the socialist-labor government of Great Britain has used. The British called it an "austerity program." In the United States, it is called "cooling the economy." In both cases, it should be called a deliberate effort by government to lower the national standard of living by slowing down business activity, stopping business expansion, and creating unemployment.

Government itself is the primary cause of high prices. The crushing tax load government imposes on the people does not all show up as direct, personal income tax. Much of it is imposed on businesses which must, of course, add the tax cost to other costs of doing business — and raise prices accordingly.

Government imposes on businesses heavy bookkeeping, accounting, and legal costs for collecting, reporting, and paying the taxes of individual workers — and for complying with a multitude of government regulations involving federal wage-hour laws, federal labor laws, federal "fair employment" laws, federal unemployment-insurance laws, federal "open housing" laws, federal surveys, and so on. All these costs must be added to the prices which businesses charge for their goods and services. By the time a finished product reaches the consumer market, its selling price often includes hundreds of "hidden taxes" that have been added to offset taxes and expenses which government has imposed on the various businesses involved in producing, hauling, and processing raw materials; transporting, packaging, distributing, and advertising the finished product.

After the finished product reaches the consumer market, its cost already swollen by hundreds of "hidden taxes," its selling price is sometimes further increased by a visible excise, or retail-sales, tax (such as is imposed on gasoline, for example).

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Government causes high prices (and unemployment) with minimum-wage laws which require many businesses to pay higher wages for unskilled labor than the businesses can afford or the labor is worth.

Government causes high prices by giving monopolistic unions the power to bludgeon industries into hiring more people than needed, paying them more than their labor is worth, and adopting practices which decrease, rather than increase, productivity.

Government causes high prices by giving the privately-owned, uncontrollable, Federal Reserve System the power to create paper money backed by nothing; the power to control the national supply of money and credit; and the power to manipulate interest rates. When the Federal Reserve raises interest rates, it raises prices of consumer goods and services, because interest rates are an inseparable part of the cost of living and doing business.

Government cheapens the dollar (which means increasing the price of consumer goods) by deficit financing: spending borrowed money, thus increasing the national debt, which (by a complex process understood by very few people) is monetized — meaning that the government's debts are transformed into fiat Federal Reserve currency (the paper money all of us use).

Government causes high prices by taking millions of people out of the productive work force and putting them into government jobs, making them consumers of goods and services they do not help produce — thus increasing the demand for goods and services while decreasing production. Some of this is necessary, but the volume could be sharply reduced if government were restricted to the performance of legal, constitutional functions.

Government causes high prices by taking millions of people out of the productive work force and putting them into the military services, and by directing a great deal of the remaining national work force into the production of non-consumer goods — that is, war materials. Much of this is necessary for national defense. But we could reduce the amount, and improve our defense, if we would abandon the impossible role of world-defender, and concentrate on defending the United States.

Government keeps on welfare thousands of people who would otherwise work. This causes high prices in at least three ways. (1) Much of the cost of the welfare is passed on to the consuming public in the form of "hidden taxes" which increase prices. (2) People on welfare consume goods and services but produce none, thus causing the national demand for goods and services to increase faster than productivity increases. When demand for a commodity is greater than production of it, its price always goes up. (3) Reducing the size of the work force, by keeping large numbers of people idle on welfare, makes the labor market less competitive. When people do not have to compete to get and keep good jobs, their productivity tends to decrease and their wages tend to increase. High wages *and* high productivity do not cause high prices, but high wages and low productivity certainly do.

Government causes high prices by buying goods on the American market and then giving them away abroad as foreign aid. If the billions of dollars worth of goods given away abroad were sold on the American market, they would have to compete with other goods; and the selling price of all would therefore tend to decrease.

The real wealth of a nation is measured by the quantity of goods and services available to the people. Essentially (in a free, competitive economy), the prices which people must pay for the goods and services they want are established by the relationship between demand and supply. When demand exceeds supply, prices rise. When demand is less than supply, prices fall. When there is just about enough demand to meet the available supply, prices remain stable.

How, then, can rising prices be combatted? Since rising prices means that there is more de-

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mand for goods than there are goods available, two courses seem obvious: reduce the demand, or increase the supply.

Reducing the demand for goods actually means lowering the standard of living and decreasing business activity. If a man can be induced or forced (because he has lost his job or is in fear of being laid off) not to buy a new suit of clothes, then the demand for men's suits will be reduced; and that reduction, tending to bring supply and demand into balance, will tend to reduce the prices of men's suits. If a housewife can be induced to refrain from buying high-priced beef for her family and to set her table with less expensive fare, then the demand for beef, and the price, will decline. If a business firm can be induced (because of high interest rates and other high costs) to refrain from building another production plant, then demand for the goods and services that would have been necessary to create the new plant will be held down —and so will the prices of the goods and services not used.

Combatting high prices by reducing demand for goods and services is not the traditionally-American, free-enterprise way. The free-enterprise way is to increase production of goods and services so that there will be more than enough to meet demand. Then, the competition to sell goods and services will bring prices down.

How can productivity be increased to drive prices down? It cannot be done by positive government action, but only by negative government action. That is, abundant productivity, which will cause a lowering of prices, can be achieved only by freeing the economy of unnecessary and harmful burdens imposed by government in the forms of taxes, controls, regulations, price-fixing, wage-fixing, and bureaucratic red tape.

Achieving a lowering of prices in the free-enterprise way of increasing productivity by relieving the people and their businesses of unnecessary governmental burdens, does not require lowered wages. Wages can rise just as fast as productivity rises without inflating the cost of consumer goods, because (to repeat) high wages *and* high productivity do not cause high prices.

Combatting rising prices by decreasing demand (the method chosen by President Nixon) always hurts, rather than helps, the public, because it reduces productivity, employment, and the standard of living faster than it reduces prices.

In short, we need a Congress and a President who will restore constitutional government by restricting federal taxing and spending to activities authorized in the Constitution.

NOT TO RUN

I have decided not to run for the Senate in 1970.

The Texas Senate race is a key race for Republicans. The Nixon administration and top party leaders, national and state, have persuaded Representative George Bush to run, with the hope that he can unseat the Democrat incumbent, Ralph Yarborough. They will give Bush whatever funds necessary to win the primary. Bush says he expects the statewide race to cost a minimum of $1 million. My own investigation into the cost of adequate media coverage, a competent staff, and other related expenses indicates about the same amount — though I would have made the try with much less.

I have not been able to raise, or get promises, of enough money. I have had no "big-money" support, but I have had thousands of contributions from every state in the union and from all kinds of people, mostly subscribers to this *Report*.

Such wide support convinces me that, if Americans are exposed to the principles of constitutional government, they will support those principles. The problem is raising enough money to reach enough voters. This, I failed to do.

I was tempted to run with what I had and do the best I could, but concluded that that would do more harm than good to the cause of constitutional government — because I could not get adequate media coverage, or staff help for cam-

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paign management, organization, and clerical work.

If I lost badly to Bush, the liberal news media would tout it as proof that Texans had emphatically rejected the philosophy of constitutional government, overwhelmingly endorsed Nixon policies.

A constitutionalist, with enough money for a competent staff, and for television (and other means) to reach Texas voters, could beat George Bush in the Republican primary by showing that, on basic issues, Bush's voting record is the same as that of Ralph Yarborough. By relentless discussion of the record, an adequately financed constitutionalist on the Republican ticket could also beat Yarborough in the general election.

I doubt that Bush can beat Yarborough, because the two men have identical stands on vital issues; and there can be no important dispute between them. The only essential difference between them is party label. Hence, a Yarborough-Bush race will give Texas voters no real chance to vote on issues. Under such conditions, the incumbent usually has the advantage.

A great many people — who, by subscribing to this *Report*, have supported my work for years — pleaded with me to stay out of politics, because, they say, I am doing more good in my present work than I could do in the Senate.

This is a high compliment; but if it is valid, the circulation of this *Report* must be increased sharply to reach enough people so that, before it is too late, constitutional conservatives in all parts of the country can raise enough money to campaign effectively for seats in the federal Congress. I will devote my resources and energy toward accomplishing that goal; and I will need the help of all of you.

The money contributed to my political escrow fund will be returned just as quickly as the clerical work can be done. This will be a slow job, because my staff is small and the number of checks to be written, recorded, and mailed is large. *But all contributors to my political escrow fund should receive refunds by February 28.*

I am deeply grateful to all of you who tendered your help, and am especially indebted to those who contributed money, not to be refunded, to help me bear the heavy cost of a six-months "pre-campaign campaign." Many could not afford what they gave or offered; and that fact intensifies my feeling of gratitude.

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With no revenue from advertising, and no subsidy of any kind, this *Report* cannot afford the promotion campaigns that most publications use to increase circulation. Our subscribers do most of our promotion for us, by giving the *Report* to others, and by inducing others to subscribe.

During last Christmas season, however, we did not offer our subscribers as much opportunity as usual to take advantage of our special Christmas rates, because we were too heavily involved with politics to pay proper attention to business.

We are, therefore, extending, until February 28, 1970, our special Christmas rates for gift subscriptions: two or more 1-year subscriptions, $9.00 each; two or more 6-month subscriptions, $5.50 each; 3-month subscriptions, $3.00 each.

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